

6 BUDGETING AND FUNDS MANAGEMENT

The budgeting and funds management processes are essential to the successful implementation of the ER project baseline. These processes provide for the acquisition and use of funds consistent with the cost, schedule, and technical needs of the ER project baseline and are linked to the DOE annual budgeting cycle. The ERD, with concurrence from BRMD, authorizes the expenditure of fiscal year (FY) funds for the accomplishment of a specific work scope and the completion of specific project milestones that are identified and approved in the annual funding request. The budgeting and funds management processes are closely inter-connected, dynamic, lifecycle based and span a three-year rolling wave cycle. The three-year rolling wave cycle includes the:

1. Execution Year (current FY).
2. Planning year (Execution year plus 1 FY).
3. Budget Year (Execution year plus 2 FY).

As one fiscal year (FY) ends and a new FY begins, the execution year, planning year, and budget year change according to the rolling wave concept depicted in Figure 6.1. Budgets must be developed in order to meet the congressional requirements for receiving project funding. The baseline supports this budget and includes the technical scope, schedule, and resources (cost estimate) required to implement the ER project and to provide the basis by which progress is measured.

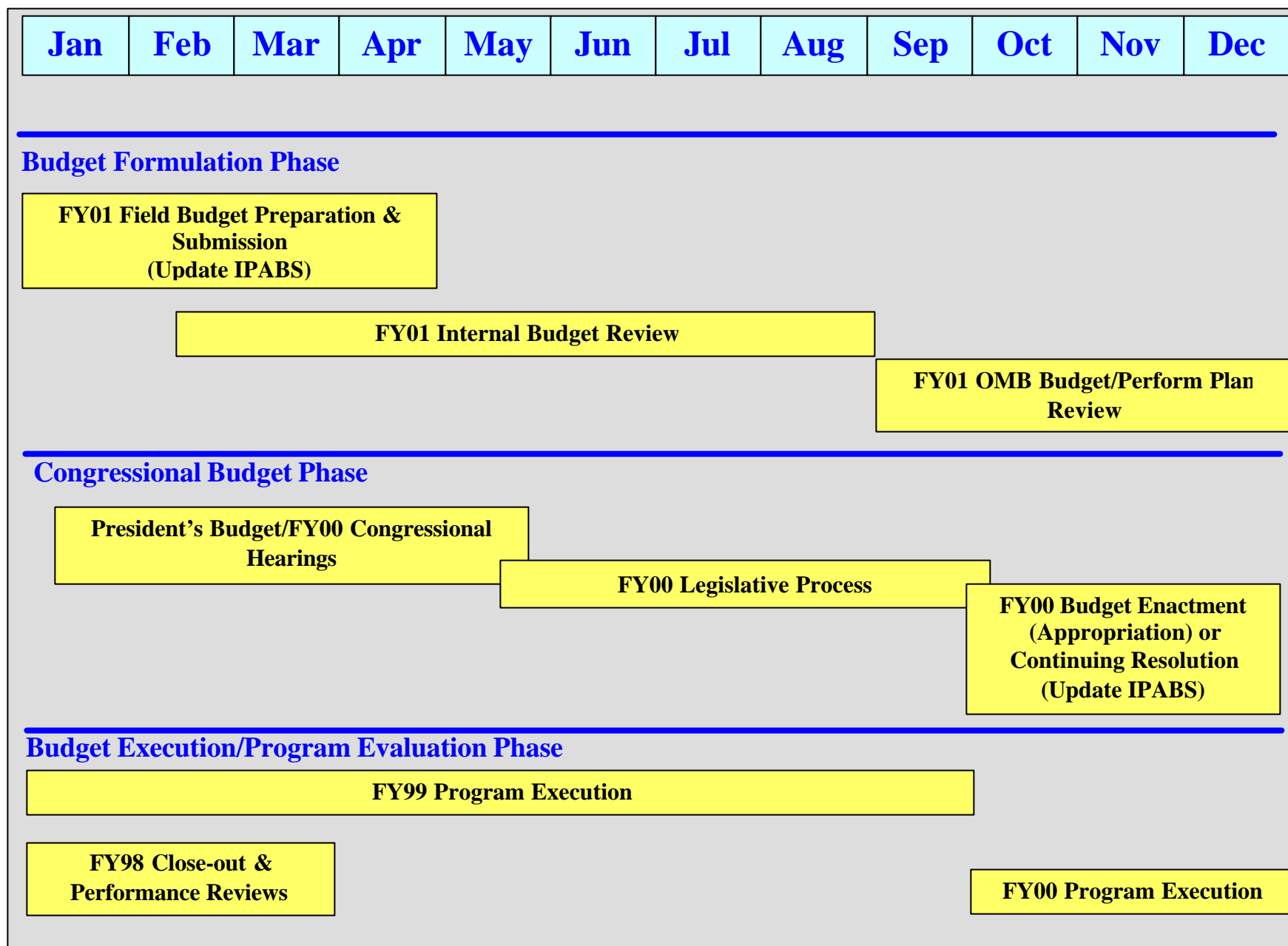
6.1 BUDGET PROCESS

Throughout any given year, three simultaneous budgeting phases are occurring, Budget Formulation, Congressional Budget, and Budget Execution/Program Evaluation, as depicted in Figure 6.1. These phases begin with Budget Formulation, as shown in the top left corner of this figure, and represented as the Budget Year. During Budget Formulation, the sites prepare their budgets, ERD and BRMD consolidate the individual budgets, and the DOE prepares an agency budget for the President and Congressional committees. The Budget Year consists of a Field Budget submission; an Internal Budget Review, sometimes referred to as the Corporate Review Budget; and the Office of Management and Budget (OMB) Budget.

Concurrent with the Budget Formulation phase is the Congressional Budget phase, during which time congressional appropriation subcommittees in the House and Senate conduct a review and hearings on the next fiscal year's funding request referred to as the Planning Year. The example shows FY 2000 as the subject of Congressional Budget Hearings on the President's Budget Request, which includes DOE's budgets, legislative activities in various committees, and finally, enactment of a budget, which is known as an appropriation. The DOE has several appropriations, so DOE's budget process is quite complex and involves nearly 30 different committees in the House and Senate.

The Budget Execution/Program Evaluation phase is the phase during which agencies, with their approved budgets, obligate, operate, and spend to carry out their required programs. During budget execution the DOE manages the projects to ensure that the obligational authority is not exceeded. The program evaluation portion of this phase takes place after DOE has completed operations for a fiscal year. DOE and outside auditors verify that DOE followed budget requirements and compare actual performance against plans.

Figure 6.1 Budget Phases - CY99 Example



6.1.1 Execution Year

The contractors prepare their annual updates according to ERD annual baseline planning guidance. As the contractors move into the new execution year, it may be necessary to adjust their baseline if certain events occur. Examples of such events are:

1. Congressional funding for the planning year falls short of the contractor's expectations.
2. Technical issues dictate that work be shifted into a different year than what was planned.
3. OEOS Corporate Review Board (CRB) determines the necessity to shift funds from one installation to another.

These baselines are the plans for scope, schedule, cost, and performance requirements for work that will be executed for the year. Each is updated annually by the contractors and reviewed by DOE. Once Congress appropriates a budget, execution may occur as reflected in the baseline. Execution occurs when you commit, obligate, spend, and account for the use of these appropriated funds per the approved baseline plan. Theoretically, Congress appropriates funds each October to DOE, and AL/BRMD then issues budget authority through the Approved Funding Program (AFP), which is the obligational authority. When Congress is delayed in making appropriations, the government operates under a continuing resolution. This allows DOE to provide short term funding to the contractors to prevent work interruptions and layoffs. The AFP provides a detailed breakdown of all obligational authority reflected in allotments. It identifies available amounts at each congressional control level against which actual obligations and costs are measured. It is issued monthly for operating expenses, construction, capital equipment, and reimbursable work for Federal and nonfederal entities. BRMD makes monthly updates to the AFP, as necessary.

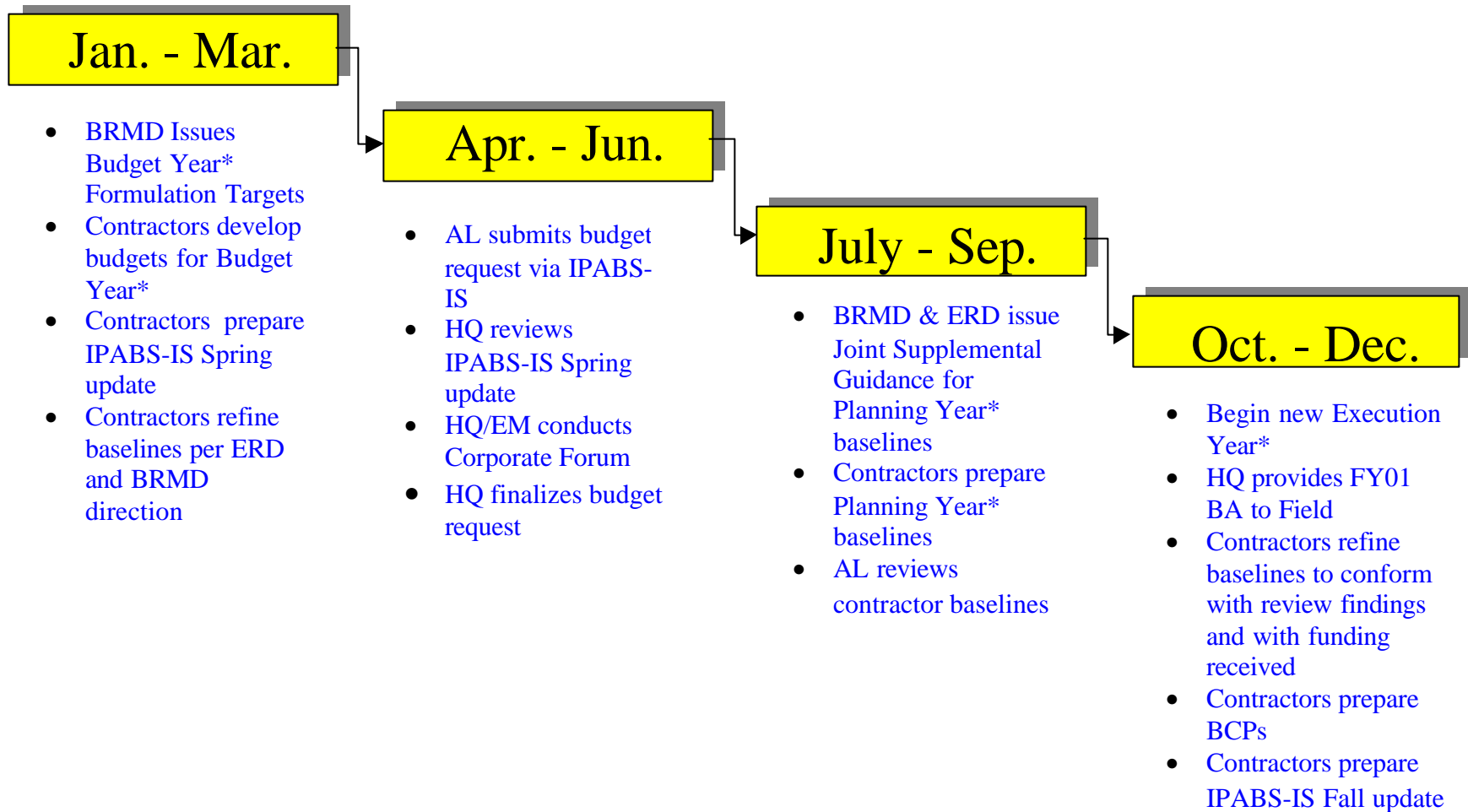
Funds are tracked in the IPABS-PEM. The IPABS-PEM is updated monthly through a download from the official DOE accounting system (MARS/FIS). During the year, the contractors will approximate their estimated costs, based on the baseline cost plan, and estimated carryover funds into the next fiscal year. The contractor enters these estimates into the IPABS-PEM, and actual costs (execution) are compared to planned costs and monitored by the DOE. BRMD will monitor budget authority through IPABS-PEM by reviewing prior year uncoded obligations, execution year obligations, actual costs, and commitments. The total funds available to the contractor are the sum of carryover funds from the previous year plus the new fiscal year budget authority. The contractors are prohibited to allow expenditures to exceed their available funds. Figure 6.2 depicts planning and budgeting activities, which occur during the execution year.

6.1.2 Planning Year

In the spring and summer of the execution year, as previously described, DOE/AL monitors the congressional action/budget hearings conducted on the president's budget request which includes

the DOE's budgets, legislative activities in various committees, and finally, enactment of a budget, which is known as an Appropriation. During this time the DOE participates in responding to various congressional inquiries regarding their budgets. The DOE has several appropriations, so DOE's budget process is quite complex and involves nearly 30 different committees in the House and Senate. Once Congress appropriates a budget, additional expertise is required to properly commit, obligate, spend, and account for the use of these appropriated funds. This aspect of the budget process is referred to as the execution phase, as described in Section 6.1.1.

Figure 6.2 Execution Year Planning and Budgeting Activities



*Note: Example above assumes current date is February 28, 2000 as reader moves from left to right. Execution year is FY00, planning year is FY01, and budgeting year is FY02.

6.1.3 Budget Year

In the spring of the execution year, the contractors develop the supporting data for the budget formulation for the budget year (execution year plus two) per IPABS guidance, as well as, supplemental AL guidance. During this period, regularly scheduled conference calls are conducted between ERD, BRMD, and the contractors to coordinate and clarify guidance to ensure consistent budget submittals. Site teams comprised of BRMD, ERD, and the AO are formed to review contractor submittals.

Along with the lifecycle budget, the contractor develops their Priority List (PL) for the budget year, identifying discrete units or groupings of activities with associated funding requirements. The PL is electronically submitted to the ERD project baseline summary (PBS) manager and BRMD. As the site teams identify data gaps, areas of noncompliance with guidance, or other issues, the contractors are asked to revise their submittals and PLs. Once BRMD and ERD are confident that the contractors' submittals are satisfactory, BRMD then integrates the contractor PLs into a single AL Integrated Priority List (IPL) for review by the OEOS manager and the AL CRB. It is possible that the contractors will be directed to once again adjust their PL to reflect the decisions made by the OEOS manager and CRB. Once the IPL is approved, adjustments are made to the IPL and/or PBS and are entered into the IPABS-IS by BRMD for the field office budget.

6.2 FUNDS MANAGEMENT

The funds management process uses the project schedule to provide data on the timing of commitments and the method of budget distribution. Project funds utilization may vary from the original and annual funding profile. The funds management process:

1. Identifies the funds required to successfully complete the project cost, schedule, and technical objectives.
2. Ensures that the commitment and expenditure of funds do not exceed the authorized ceiling by providing for an early-warning capability that identifies forecasted expenditures and commitments and compares them to the not-to-exceed amounts.
3. Evaluates the impacts associated with changes in the project work scope to the planned funding limits.
4. Maintains the capability to reconcile between forecasts for funding availability and costs required for executing project work.
5. Evaluates estimated carryover for efficient use of budget authority.

The entire authorized work scope of the ER project is budgeted and time-phased over the project life to form the performance measurement baseline (PMB). Subsequent to receiving the annual fiscal year funding authorization, the contractor compares the near-term planned budget expenditure profile, including planned commitments, with the most recent projection of available funds. This comparison reveals whether the budget requirement is greater or less than the available funds. This adjustment is accomplished by either accelerating or delaying scheduled activities.

Unused funds remaining for specific scope from a prior fiscal year will be identified as carryover and replanned into the new fiscal year baseline. Upon verification that prior-year funds are available for carryover, a baseline change proposal will be processed to transfer the scope to the current fiscal-year baseline.

As discussed in Section 6.1.1, contractors cannot allow expenditures to exceed their available funds. They must have an approved process in place to help ensure that funding limits are not exceeded.

Regular updating of the fiscal year EAC can provide early warning that authorized funding limits may be exceeded. It may also reveal a situation in which funding authorization may be significantly under spent, which would allow DOE to make midyear adjustments for more efficient use of its resources.

The concept of funds management encompasses four major components to effectively avoid a funding deficiency. They are as follows:

1. Costs from the accounting system.
2. ETC or EAC as required from the planning/scheduling and cost estimating systems.
3. Commitments from the funds management system.
4. Budget authority from the funds management system.

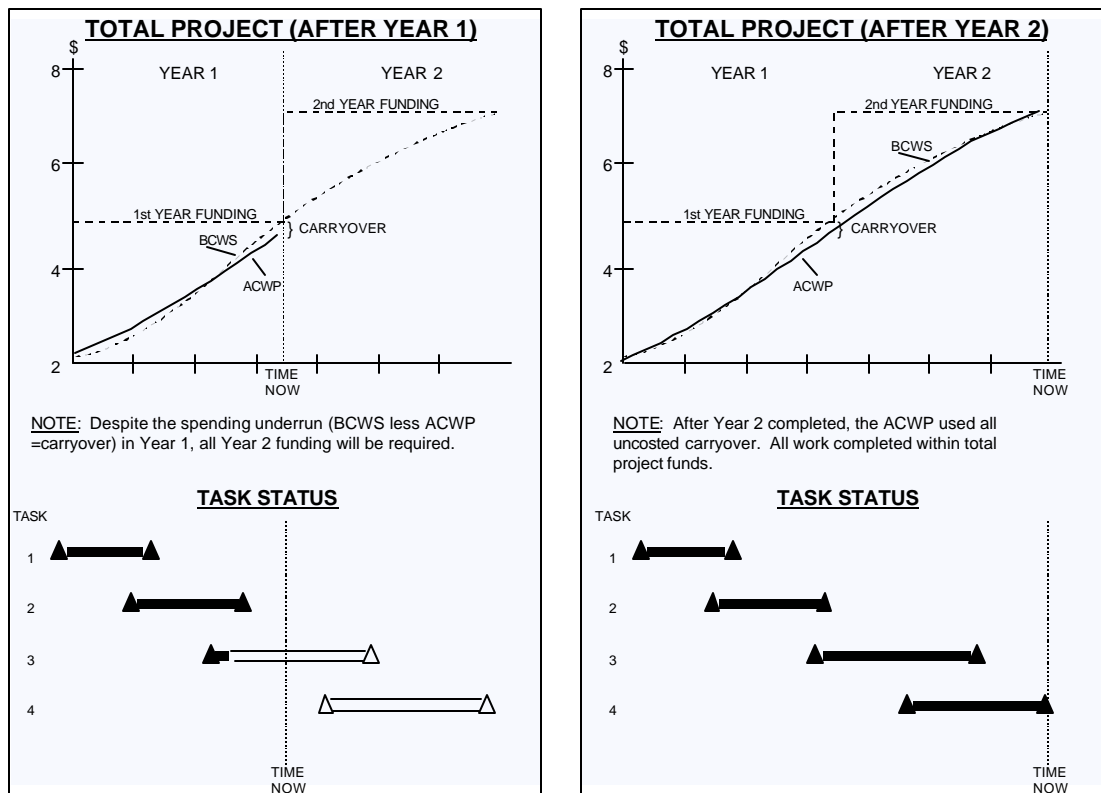
The contractor's funds management procedures should describe the process and how the system components described above interface to adequately manage funds.

6.2.1 Funds Management Reporting

The contractor's funds management procedures should require that funds management reports be generated on a monthly basis for contractor management monitoring and reporting to ERD. At a minimum, the DOE will require the contractor to formally report funds status at one or more points in time beginning in the second half of the fiscal year. For example, DOE may require written notification from the contractor when 75% of the authorized funds have been committed. Additionally, the contractor will need to generate an AFP change request. BRMD also monitors the contractor's estimated carryover. BRMD compares actual to planned costs per the current baseline cost plan. BRMD may request the contractor to submit a carryover analysis in order to make timely decisions on the most efficient use of budget authority. The budgeted cost for work scheduled (BCWS) should not be revised to move work that was started and planned for completion in a year prior to the execution year. Funds not spent in the prior year for that planned work are reflected as uncosted carryover. Moving these funds does not require replanning the BCWS. Work that was not completed in the prior year should be reported as a schedule or cost variance (see Figure 6.3).

Funds available during budget execution and the PMB are not directly linked because the PMB is developed to represent cost and schedule over the life of the program, while funds are provided annually.

Figure 6.3 Funds Management



In some cases, funding limitations can impact the scope of work in a specific period. The PMB may need to be replanned to reflect work scheduled but not performed during the execution year that was moved to future years to accommodate the funding shortfalls, and to maintain a realistic baseline. However, if a significant amount of work must be rescheduled, ERD and BRMD will review the request and make a recommendation. Prior to changing the PMB, the appropriate DOE levels must concur.

Through the funds management process, costs and commitments can be recognized, and the point at which a commitment is made can be clearly identified. For example, the contractor may consider that funds have been committed when a purchase request has been properly signed and forwarded to the procurement department, but it may not be considered a commitment until an agreement has been reached with a specific vendor and a purchase order has been issued. In the latter instance, the contractor's system must recognize pending commitments, such as any purchase requests in process that can be expected to result in a commitment. In any case, the funds management process must provide for the accurate and consistent tracking of pending commitments.

Because funding availability may change any time during the fiscal year, the contractor must be prepared to perform funding analyses and "what if" scenarios to evaluate the impact of the

changes. The resource loaded project schedule should be used to support these analyses. The analysis should consider the following:

1. Does the net funding change, plus any change to projected carryover, allow for completion of remaining work? Identify the work scope that must be deferred to subsequent year(s) as a result of the funding change.
2. Will DOE-controlled and regulatory milestones be affected? Identify in the project schedule all DOE-controlled and regulatory milestones that will be impacted and the extent of the impact (i.e., determine the expected completion date of the milestone as a result of the funding change).
3. Will the project EAC be affected? Calculate the project EAC on the basis of the funding change.

When the funding change impact is significant enough to warrant a corresponding change in the cost and schedule, a baseline change proposal (BCP) will be required. The baseline changes must be integrated so that budget for the technical scope is time phased in accordance with the schedule change scenario.

6.2.2 Contingency

Contingency is DOE, not contractor, controlled. However, the contractor may hold and track contingency in the project management control account. ERD must approve any use of contingency in accordance with criteria established by the applicable ERD change control process (see Section 5.2.1) and established change control thresholds (see Section 5.2). When DOE approves the BCP which requests the use of contingency, the contingency budget will be reduced, and the PMB will increase based on the justification provided in the contractor's BCP. These changes will be documented in the contractor's contingency log. See Section 3.2.3.5 for a more detailed discussion on contingency development.

6.2.3 Carryover

Carryover is defined as uncosted obligations from prior years. Uncosted Obligations Carryover consists of funds, which were obligated in a prior year but not costed as of October 1 of the new fiscal year. Uncosted obligations carryover is further broken down to the following categories: contractor encumbrances, pre-financing, approved work scope, and unencumbered. These are prior-year funds intended to cover prior-year contract encumbrances and/or approved work scope. When contractor encumbrances are delayed and/or the approved work scope has not been completed and is carried forward into the next fiscal year, so are the funds to pay for them (note EM recommended thresholds). The EM recommended percentages or thresholds for uncosted carryover are as follows: Operating is 8% (allowed since there may be at least a one-month lapse between contractual encumbrances and actual cost accrual at the end of the fiscal year), Capital is between 25% and 50% (allowed since the procurement process takes about 15 to 18 months which will take you three to six months into the next fiscal year), and Line Item and GPP is 50% (same as capital but can be more problematic therefore, it is set at 50%).

Holdbacks may be released from HQ too late in the fiscal year to be encumbered on a task, adding to carryover and creating the perception that funds are not being managed appropriately. Careful preplanning can help mitigate this problem and, through preparation, it may be possible to utilize funds as soon as they are released. As part of this preparation, EM management should have knowledge of total program funds both current funding and amounts held back.

Planning for some amount of carryover funds into the next fiscal year is encouraged by DOE to accommodate a failure by Congress to appropriate funds by October 1, whereby the Federal Government operates under a continuing resolution. BRMD provides the EM recommended threshold percentages on how much planned carryover is permitted and monitors this data through the IPABS-IS. The contractor factors the carryover amount into their baseline refinement of the cost plan for the execution year. Carryover can also be unplanned, as is the case when a spend variance occurs, or when planned work is not performed. When work is not performed, BCWS is not automatically moved, along with the uncoded funds, into subsequent fiscal years. ERD will determine whether or not the contractor can move BCWS to a subsequent year and submit an approved BCP.

Carryover can also be unplanned, as is the case when a spend variance occurs, or when planned work is not performed, as previously described. When work is not performed, BCWS is not automatically moved, along with the uncoded funds, into subsequent fiscal years. ERD will determine whether or not the contractor can move BCWS to a subsequent year and submit a BCP for approval.

6.3 WORK AUTHORIZATION

The work authorization process interfaces directly with budgeting and funds management, as well as, with other project management processes such as baseline development, change control, and procurement. Work authorization from AL to the contractors and within the contractor's organization enables work to be authorized before it begins, precludes unauthorized procurement, and allows work to be stopped before funding limits are exceeded.

6.3.1 AL Work Authorization Process

The annual work authorization process begins before the start of each fiscal year and continues through the year. As discussed in Section 6.1.1, each October, AL allocates fiscal year funding received from the DOE Office of Environmental Management (EM). Both DOE HQ and AL may withhold some EM funding. If this occurs, the AL allocation reflects the amount that has been withheld, and may be released to the contractors before the fourth quarter. If funding is not congressionally appropriated by October 1, DOE operates under the provisions of a continuing resolution. When the DOE Controller issues a continuing resolution, partial funding is allocated in the AFP. The provisions of the continuing resolution limit work authorization and funding. Initial fiscal year budget authority may be amended when final congressional appropriations are received. The BRMD budget analyst acknowledges what funds are necessary to support the authorized work per the approved baseline and, upon congressional appropriation, allocates funds in the AFP to the contractor for the execution year, which constitutes work authorization to the contractors. BRMD executes changes in the AFP through the existing financial plan process to ensure that each contractor has funding to proceed with the authorized scope of work.

6.3.2 Contractor Work Authorization Process

The contractor's formal process for work authorization ensures that activities that have been defined, organized, and planned by TSDs, or similar document, in the ER baseline are approved by the appropriate management level before work begins. The work authorization process formally acknowledges the work schedule and the procurement of goods or services schedule. Contractors must formally document the internal authorization of work with the approval of the project manager or subproject technical manager. Typically, this internal documentation is called a Work Authorization Document (WAD) or Work Package Authorization Agreement (WPAA). An example contractor work authorization document is included in Attachment 8. The contractor's Project Control System Description (PCSD) must include a detailed description of the internal work authorization process and will be reviewed and approved annually by DOE.